

**The Internal Revenue Service Should  
Continue to Develop Its Measures Program to  
Ensure That Its GPRA Measures Cover All of  
the Major Components of Tax Administration**

**May 2002**

**Reference Number: 2002-10-097**

**This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.**



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

May 30, 2002

MEMORANDUM FOR CHIEF FINANCIAL OFFICER

A handwritten signature in cursive script, reading "Pamela J. Gardiner".

FROM: Pamela J. Gardiner  
Deputy Inspector General for Audit

SUBJECT: Final Audit Report - The Internal Revenue Service Should  
Continue to Develop Its Measures Program to Ensure That Its  
GPRA Measures Cover All of the Major Components of Tax  
Administration (Audit # 200110031)

This report presents the results of our review of the Internal Revenue Service's (IRS) Government Performance and Results Act of 1993 (GPRA)<sup>1</sup> performance measures. The overall objective of this review was to determine if the performance measures in the IRS' GPRA submissions allow the IRS to adequately assess the success of its operations. We conducted this review as part of our ongoing coverage of the IRS' compliance with the GPRA. With this report, we hope to assist the IRS in providing the Congress a more complete picture of the success of the IRS.

In summary, we found that the IRS' critical performance measures do not address all of the strategies listed in the IRS Strategic Plan and do not support a significant portion of the IRS' budget request. We considered the IRS' strategies and its budgeted areas as the major components of tax administration. The lack of performance measures for each of the IRS' major strategies and for each of the major areas of the IRS' budget prevents the IRS from reporting, in a single document to the Congress, its overall level of success in achieving its mission. In addition, we found two performance measures where the definition of the measure did not match its use.

The IRS Commissioner selected the critical performance measures based on their direct relation to the taxpaying public. This emphasis by the IRS on serving the taxpayer has resulted in a recent customer satisfaction rating report which showed that

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<sup>1</sup>Pub. L. No. 103-62, 107 Stat. 285 (codified as amended in scattered sections of 5 U.S.C., 31 U.S.C., and 39 U.S.C.).

the IRS' customer satisfaction rating has increased by 22 percentage points over the last 2 years. While we do not discount the IRS' emphasis on customer satisfaction, the IRS should also continue to develop its balanced measures program to ensure that its critical performance measures cover all of the major components of tax administration.

The President's Management Reform Agenda addresses integrating performance review with budget decisions. This is designed to produce performance-based budgets and, over time, agencies will be expected to identify high quality outcome measures, accurately monitor the performance of programs, and begin integrating this presentation with associated cost.

In order to meet the President's agenda, we recommend that the IRS develop new performance measures or include existing performance measures in its list of critical performance measures. The IRS should use these additional critical measures to ensure that they address each of the major strategies and budgeted areas of the IRS. In addition, we recommend the IRS verify that the definition of each performance measure matches its use.

Management's Response: IRS management responded to this report with a corrective action for each of our findings. They will consider identifying existing measures or newly created measures to align with the strategies identified in the strategic plan and review the budget submission to determine if additional performance information is needed. IRS management also recently issued guidance requiring designated IRS officials to certify that performance data reported on a monthly basis meets required procedures.

IRS management commented that it has substantial reporting requirements to the Oversight Board, the Congress, and the Office of Management and Budget beyond the Budget and Annual Performance Plan. The IRS does not believe that it can provide this information in a single document that would meet the needs of its various stakeholders. Management's complete response to the draft report is included as Appendix IV.

Office of Audit Comment: While we acknowledge the IRS' extensive reporting requirements to the Congress, we believe that the IRS is not complying with the requirements of GPRA if it does not address each of the major strategies in the strategic plan and each of the major budget areas in its annual performance plan and its annual performance report.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

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## **The Internal Revenue Service Should Continue to Develop Its Measures Program to Ensure That Its GPRA Measures Cover All of the Major Components of Tax Administration**

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### **Background**

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The Government Performance and Results Act of 1993 (GPRA)<sup>1</sup> requires federal agencies to submit to the Congress a strategic plan every 3 years and an annual performance plan on a yearly basis. In addition, the Internal Revenue Service (IRS) submits its annual budget request to the Congress in its Congressional Justification. The strategic plan centers on those programs and activities that are key to carrying out an agency's mission. The annual performance plan sets out measurable goals that define what will be accomplished during a fiscal year.

The Office of Management and Budget (OMB) provides agencies guidance on preparing strategic plans, annual performance plans, and annual program performance reports through its Circular A-11 and related material like the President's Management Reform Agenda. One of the initiatives in the Fiscal Year (FY) 2002 President's Management Reform Agenda is to provide a greater focus on performance by integrating performance review with budget decisions. This is designed to produce performance-based budgets starting with the FY 2003 budget submission. In addition, over time, agencies will be expected to identify high quality outcome measures, accurately monitor the performance of programs, and begin integrating this presentation with associated cost.

The IRS submitted to the Congress in January 2001 a strategic plan covering FYs 2000-2005. The IRS also submitted on April 9, 2001, its FY 2002 Annual Performance Plan and Congressional Justification to the Congress. The annual performance plan and the Congressional justification contain the critical performance measures that the IRS reports to the Congress addressing the success of its operations. For this review we looked at these critical performance measures to determine if they provided the Congress with a complete assessment of the IRS' operations.

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<sup>1</sup> Pub. L. No. 103-62, 107 Stat. 285 (codified as amended in scattered sections of 5 U.S.C., 31 U.S.C., and 39 U.S.C.).

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We conducted this review from June 2001 to February 2002 at the National Headquarters in Washington, D.C. The audit was conducted in accordance with *Government Auditing Standards*. We did not validate the performance data that the IRS sends to the Congress as a part of this review. This review was limited to determining whether the IRS performance measures cover all of the major components of tax administration and whether the performance measures are fairly presented. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

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### **The Internal Revenue Service's Critical Performance Measures Do Not Address All of the Strategies Listed In Its Strategic Plan**

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One of the methods that we used to identify the major components of tax administration was to identify the major strategies in the IRS' strategic plan. The performance measures that the IRS reports to the Congress via its Congressional justification and annual performance plan<sup>2</sup> do not address all of the strategies listed in the IRS' FY 2000-2005 Strategic Plan.

We were unable to link the IRS' critical measures to 5 of the 10 IRS strategies. The strategies with which we could not link critical performance measures were:

- Address Key Areas of Non-Compliance.<sup>3</sup>
- Deal Effectively with the Global Economy.
- Recruit, Develop, Retain a Quality Workforce.<sup>4</sup>
- Provide High Quality, Efficient, and Responsive Information Services<sup>5</sup> and Shared Support Services.
- Promote Effective Asset Information Stewardship.

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<sup>2</sup> These are the performance measures that the IRS reports externally and, as such, we consider them to be the IRS' GPRA measures.

<sup>3</sup> The IRS has two measures of its underreporter program, but these measures alone are not sufficient to address the success of this strategy.

<sup>4</sup> The IRS has an employee satisfaction critical performance measure, but neither this measure alone nor any of the existing internal performance measures is sufficient to address the success of this strategy.

<sup>5</sup> This relates to Information Services support activities and not Modernization activities which are subject to additional oversight.

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The IRS is in the process of developing measures that would address its strategies relating to compliance and the global economy. The IRS has recently developed a Globalization Index, which it may be able to use in the future to measure the strategy addressing the global economy. However, for the compliance strategy, the IRS has only recently determined how its compliance measures will be defined. The compliance performance measures will not be available for the FY 2003 budget submission.

The IRS does have performance measures addressing its Information and Support Services strategy. However, the IRS does not include any of these measures in its list of critical measures reported to the Congress as part of its GPRA submissions. In addition, we are not aware of any detailed plans by the IRS to develop performance measures to address either the workforce or asset stewardship strategies.

One reason there are no performance measures covering these strategies in the list of critical measures is that the IRS Commissioner selected the critical performance measures based on their direct effect on the taxpaying public. This emphasis on service to taxpayers has been successful. A recent report by the University of Michigan Business School shows that the customer satisfaction rating for the IRS has improved by 22 percentage points over the last 2 years. While we acknowledge the IRS' effort and success in this area, the IRS' critical performance measures should also address all of the major strategies of the IRS. This would allow the IRS to report to the Congress its progress in achieving its mission.

The Commissioner also relies on the individual business units to develop performance measures for their respective areas. These business units have just begun operation within the past year and have not yet developed performance measures addressing each of the individual business unit's strategies. In most instances, the business unit strategies directly link to the IRS' strategies.

The GPRA requires that agencies include in their strategic plans a description of how the performance goals included

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in the annual performance plans will be related to the general goals and objectives in the strategic plan. In addition, in its current strategic plan the IRS states that its major strategies are the approaches it will use to achieve progress on its strategic goals over a 2 to 3-year period. If the IRS' GPRA submissions do not include critical performance measures addressing each of its major strategies, then the readers of the document cannot determine the level of the IRS' success in achieving its strategic goals and, in turn, its mission. This is because they will not be able to determine the level of the IRS' success in achieving its major strategies.

In addition, OMB Circular A-11 requires that performance goals and performance indicators in an agency's annual performance plan be based on the general goals and objectives in its strategic plan. The OMB defines general goals as those which define how an agency will carry out its mission over time. The general objectives are paired with a general goal and can be used to help assess whether a general goal was or is being achieved. In addition, OMB Circular A-11 states that the annual plan should include a performance goal(s) covering the major human resources strategies, such as recruitment, retention, skill development and training, and appraisals linked to program performance that help support the agency's programs.

The lack of critical performance measures prevents the IRS from reporting to the Congress in its GPRA submissions on the success of its major strategies and, consequently, the degree to which it is achieving its mission. OMB Circular A-11 states that strategic plans, annual performance plans, and annual performance reports comprise the main elements of the GPRA. Together these elements create a recurring cycle of planning, program execution, and reporting.

### **Recommendation**

1. The Commissioner should ensure that the IRS develops meaningful critical performance measures to address all strategies in its strategic plan.



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Management's Response: IRS management agreed to consider identifying existing measures or newly created measures to align with the strategies identified in its strategic plan.

Office of Audit Comment: In the IRS' overall comments to our report, the CFO stated that the IRS would not be able to provide all the critical measures data as well as other performance data regularly provided to the IRS Oversight Board, the Congress, OMB, Treasury and other stakeholders in a single document. Nonetheless, we believe that the IRS is not complying with the requirements of GPRA if it does not address each of the major strategies in the strategic plan and each of the major budget areas in its annual performance plan and its annual performance report.

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### **The Internal Revenue Service Does Not Have Performance Measures to Support a Significant Portion of Its Budget Request**

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The second method that we used to identify the major components of tax administration was to identify the major budgeted areas of the IRS. The IRS does not have performance measures supporting 41 percent of its FY 2002 Congressional Justification (budget request).

The IRS breaks down its budget by appropriation<sup>6</sup> and within some of the appropriations by Budget Activity Code (BAC). We found that three of the five appropriations do not have performance measures linking results to the funds requested. In the remaining two appropriations, there were no performance measures for three of the six BACs within those appropriations. The combination of the 3 appropriations and the 3 BACs equals \$3.9 billion of the \$9.4 billion (41 percent) requested by the IRS.

This same condition was brought to the IRS' attention in a report dated December 1999.<sup>7</sup> In his response, the Commissioner agreed with the condition but added that the balanced measurement system had only recently been

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<sup>6</sup> The five IRS appropriations are Processing, Assistance, and Management; Tax Law Enforcement; Information Systems; Business Systems Modernization; and Earned Income Tax Credit Compliance.

<sup>7</sup> *The Internal Revenue Service Should Improve Its Process to Ensure That All Government Performance and Results Act Requirements Are Satisfied* (Reference Number 2000-10-016, dated December 1999).

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implemented and the linkage of measures in the performance plan to the budget was not yet fully defined. The Commissioner went on to state that the measures that most affect taxpayers were developed in 1999. He expected that all other measures would be developed in FY 2000.

The appropriations that do not have performance measures are Information Systems, Business Systems Modernization (BSM), and Earned Income Tax Credit. The IRS routinely briefs the Congress on its progress in implementing the BSM and its efforts to address the Earned Income Tax Credit. However, the IRS should also include measurements or benchmarks in its Annual Performance Plan and Congressional Justification so that this information is available to interested parties, such as the IRS Oversight Board and taxpayers, and so that the Congress can use it as part of its annual budget decisions relating to the IRS.

The IRS footnotes its BSM appropriation in its budget request acknowledging that the appropriation does not have any performance measures. The footnote goes on to state that the resources budgeted for this appropriation contribute to the meeting of the targets listed in the other appropriations of the IRS' budget request. However, the IRS should also develop measures for the funds used to update its outdated business systems.

The BACs without performance measures represent areas of the budget addressing Shared Services Support, General Management and Administration, and Research. These three BACs, along with the appropriation for Information Systems, can be considered overhead and may not be easily measured. However, the funds budgeted to these areas should have performance measures to justify the budgeted amount or the costs should be associated with the program that it benefits, thus giving a truer cost of that particular program. These areas represent \$3.3 billion or 85 percent of the IRS' \$3.9 billion budget that does not have performance measures associated with it.

The current Administration is considering legislation relating to agencies' assignment of overhead costs. Under the proposed legislation, agency programs would be charged

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for all the support services and capital assets they use. Under current law, such overhead costs are budgeted separately and not linked to agency programs, meaning that most program managers have little knowledge of what their operations actually cost.

Full knowledge of a program's costs enables agency officials and lawmakers to make informed choices about how increasing or decreasing funding would affect program results. At present, many agencies are unable to account for the overhead, support, and indirect costs associated with their programs.

The Commissioner selected the IRS' critical performance measures based on their effect on the taxpaying public. Because of this, there are no critical measures covering the overhead-related portions of the IRS' budget. The IRS is taking steps that may address this by revamping its cost accounting; however, these steps will not be completed in the near future.

OMB Circular A-11 requires that a performance goal or indicator cover each program activity in the annual plan. It also requires that budget resources align with performance goals. By identifying how much an agency will spend to achieve its performance goals, the annual performance plan forms the integral link between budget and program results.

Because major components of the requested budget for the IRS lack critical performance measures, subsequent evaluation and negotiation of the President's Budget that goes forward for consideration and approval may not be judged appropriately based on the budget document alone and may require supplemental information.

### **Recommendation**

2. The Commissioner should ensure that the IRS includes performance measures or benchmarks for each of the major areas of its budget. The IRS can use existing measures, develop new measures, or, in the case of overhead-related costs, associate the costs with the program receiving the benefit.

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### **Some of the Critical Measures Definitions Do Not Match the Internal Revenue Service's Use of Them**

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Management's Response: IRS management agreed to review its budget submission and determine if additional performance information is needed.

The IRS defines its critical performance measures in its data dictionary. The definitions detail what data are included in each performance measure. The data dictionary also identifies any limitations that the IRS has identified with the data. The IRS associates this dictionary with its Annual Performance Plans and makes it available on its public web site.

We identified two of the IRS' critical performance measures where the definition of the measure did not match its use. In one instance the performance measure definition was inaccurate, and in the other instance the data included in the measure did not match the name of the measure. As a result, the Congress may be making budgetary decisions on information that may be either incomplete or misleading. We found the following:

- The definition for the Office of Chief Counsel's performance measure "Tax Court Cases" states that the measure represents Counsel's beginning inventory plus its receipts for the period. However, we determined that the performance measure reported to the Congress did not include the beginning inventory. The number of cases reported (13,698) is understated by 22,264 cases, the volume of the beginning inventory. This condition does not exist in the FY 2003 Congressional Justification because the IRS broke this measure down into two separate measures, one measure addressing tax court cases and one addressing tax court receipts.
- The performance measure addressing business returns includes the Form 1040ES,<sup>8</sup> which we consider to be a non-business form. In addition, the Form 1040ES is an information document, which we do not consider to be a return. For FY 2000, the

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<sup>8</sup> U.S. Declaration of Estimated Income Tax for Individuals.

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Form 1040ES represented 48 percent of the 81,588 documents in this performance measure.

The problems that we identified with the performance measure definitions occurred because the IRS did not have procedures to verify the accuracy of the definitions. In its response to a Treasury Inspector General for Tax Administration audit report dated November 2001,<sup>9</sup> the IRS stated that new procedures for issuing year-end data were issued to the operating divisions and functional units on September 26, 2001. These procedures require the units to submit supporting documentation that includes copies of reports and workpapers that identify the reported values for all critical performance measures. The supporting documentation must also include a discussion of any changes that have been made to the measure definition.

The new procedures only address changes to the measure definitions and do not address existing definitions. These new procedures were not in place when the FY 2002 Congressional Justification was sent to the Congress and the related data dictionary was made available on the IRS' public web site.

The GPRA requires each agency to prepare an annual performance plan covering each program activity set forth in the budget. The plan shall establish performance indicators to be used to measure or assess the relevant outputs, levels, and outcomes of each activity; provide a basis for comparing actual program results; and describe the means to be used to verify and validate measured values.

### **Recommendation**

3. The Chief Financial Officer should include in the IRS' measures verification and validation process assurance that the definition of each measure matches its use. The new procedures should not only address those

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<sup>9</sup> *The Internal Revenue Service Should Ensure That Its Data on the Treasury's Performance Reporting System Have Been Verified and Validated* (Reference Number 2002-10-027, dated November 2001).

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definitions that have changed but all of the critical performance measures.

Management's Response: IRS management recently issued guidelines requiring designated officials to certify that performance data meet the validation and verification procedures contained in the data dictionary.

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## **Appendix I**

### **Detailed Objective, Scope, and Methodology**

The overall objective of the review was to determine if the performance measures in the Internal Revenue Service's (IRS) Government Performance and Results Act of 1993 (GPRA)<sup>1</sup> submissions allow the IRS to adequately assess the success of its operations. To accomplish this objective, we attempted to link the IRS' critical performance measures with the major portions of tax administration. We defined the major components of tax administration as the strategies listed in the IRS' Strategic Plan and the major budgeted items listed in its Congressional Justification. In addition, we verified the accuracy of the definitions of the performance measures. We did not verify the accuracy of the performance data as a part of this review. This review was limited to determining whether the types of data listed in the measures definition were also present in the performance measures. To accomplish this objective, we:

- I. Identified the 507 measures/indicators that the IRS currently uses to assess its operations at all levels.
  - A. Identified the total population of performance measures/indicators that the IRS has access to and can use to monitor its performance. This list included measures and indicators that the IRS submits to the Congress through either the Fiscal Year (FY) 2002 budget justification, FY 2000-2005 Strategic Plan, or FY 2002 Annual Performance Plan or uses internally like the Business Performance Review System and the Commissioner's Monthly Data Report.
- II. Determined if the IRS' 65 performance measures/indicators for FY 2002 cover all of the major budgeted items listed in the IRS' FY 2002 Congressional Justification.
  - A. Identified the business activities in the IRS' FY 2002 Congressional Justification.
  - B. Linked the 65 performance measures/indicators to the business activities and dollars budgeted in the Congressional Justification.
  - C. For those business activities or large budget activities without performance measures, attempted to identify a measure from the total population of measures (step I.A.) that would allow the IRS to assess the success of the activity.
- III. Determined if the 65 performance measures/indicators covered all of the major components of tax administration and strategies listed in the IRS' Strategic Plan

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<sup>1</sup> Pub. L. No. 103-62, 107 Stat. 285 (codified as amended in scattered sections of 5 U.S.C., 31 U.S.C., and 39 U.S.C.).

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- A. Identified the IRS' objectives from its strategic plan and the related strategies for achieving the objectives.
  - B. Identified the major components of tax administration from the IRS' Strategic Plan.
  - C. Linked the IRS' 65 performance measures/indicators to its strategies and components of tax administration to determine whether the IRS is able to assess its success through its performance measures.
  - D. For those areas with no related performance measure, attempted to identify a measure that would allow the IRS to assess the success of the strategy.
- IV. Determined if the definitions of the 65 performance measures logically matched the use(s) of the measures.
- A. Reviewed the definition of each of the 65 performance measures found in the data dictionary.<sup>2</sup> Determined whether the definition of the measure matched the name of the measure and its use.
  - B. Determined whether the data definitions excluded significant populations of data from the measure.
  - C. For those measures that have a general definition, determined from the Office of Performance Development or from the appropriate operating or functional units the detailed definition. We determined whether this detailed definition matched the title and use of the measure.

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<sup>2</sup> The IRS defines its critical performance measures in its data dictionary.



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**Appendix II**

**Major Contributors to This Report**

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Kevin Riley, Audit Manager

Kenneth Henderson, Senior Auditor

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David Robben, Senior Auditor

Thomas Burroughs, Auditor

Gene Luevano, Auditor

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**Appendix III**

**Report Distribution List**

Commissioner N:C  
Commissioner, Large and Mid-Size Business Division LM  
Commissioner, Small Business/Self Employed Division S  
Commissioner, Wage and Investment Division W  
Chief, Agency-Wide Shared Services A  
Deputy Commissioner for Modernization & Chief Information Officer M  
Chief, Information Technology Services M:I  
Associate Commissioner, Business Systems Modernization M:B  
Director, Organizational Performance Division N:CFO:O  
Assistant to the Deputy Chief Financial Officer, Strategic Planning and Budgeting N:CFO:O  
Chief Counsel CC  
National Taxpayer Advocate TA  
Director, Legislative Affairs CL:LA  
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O  
Office of Management Controls N:CFO:F:M  
Audit Liaisons  
    Chief Financial Officer N:CFO  
    Deputy Commissioner for Modernization & Chief Information Officer M  
    Chief, Information Technology Services M:I  
    Associate Commissioner, Business Systems Modernization M:B  
    Chief, Agency-Wide Shared Services A  
    Commissioner, Large and Mid-Size Business Division LM  
    Commissioner, Small Business/Self Employed Division S  
    Commissioner, Wage and Investment Division W  
    Chief Counsel CC  
    Director, Organizational Performance Division N:CFO:O  
    Director, Legislative Affairs CL:LA

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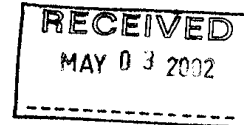
**Appendix IV**

**Management's Response to the Draft Report**



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

May 3, 2002



**MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT**

**FROM:** W. Todd Grams *W. Todd Grams*  
Chief Financial Officer

**SUBJECT:** Draft Audit Report - The Internal Revenue Service Should Continue to Develop Its Measures Program to Ensure That Its GPRA Measures Cover All of the Major Components of Tax Administration (Audit # 200110031)

Thank you for the opportunity to review the draft report from your audit of our performance measures program. We are pleased the report recognized that we selected our critical measures to emphasize customer service and the relationship IRS frontline employees have with the taxpaying public. We selected these measures after the Commissioner and Senior Management Team reviewed the many balanced measures, diagnostic measures, and workload indicators tracked by the IRS. We also shared them with the Office of Management and Budget (OMB), Treasury, the IRS Oversight Board, and the Congress to make sure they covered the major programs that our external stakeholders felt they needed to track for their respective budget and oversight responsibilities.

The IRS has substantial reporting requirements to the Oversight Board, the Congress, and the OMB beyond the Congressional Justification and the Annual Performance Plan. We submit to the OMB, the Treasury, the IRS Oversight Board, and the Congress a wealth of additional data and information on every aspect of IRS operations including both tax administration and support programs as part of the annual budget process and throughout the year. The Oversight Board gets monthly data reports, internal operations documents, and holds their own performance meetings with the business operating divisions.

We also share the critical measures data, as well as other performance data, regularly with the IRS Oversight Board, Congress, OMB, Treasury, and other stakeholders. We provide testimony at various budget and oversight hearings and respond to various questions for the record and other requests for information. Information sharing is an ongoing process. We could not provide this information in a single document that would meet the needs of our various stakeholders.

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Our detailed responses to your recommendations and specific comments on the report are contained in the attachments. If you have any questions or need additional information, please contact me at 202.622.6400 or contact Phil Mahler, Acting Director, Organizational Performance Division, at 202.622.4909.

Attachments (4)

## **The Internal Revenue Service Should Continue to Develop Its Measures Program to Ensure That Its GPRA Measures Cover All of the Major Components of Tax Administration**

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### **Attachment A**

#### **Assessment of Cause and Actions to be Taken to Address the Recommendation**

##### **IDENTITY OF RECOMMENDATION**

The Commissioner should ensure that the IRS develops meaningful critical performance measures to address all strategies in its strategic plan.

##### **ASSESSMENT OF CAUSE(S)**

As noted in the report, we focused the IRS Critical Measures on activities we perform directly involving the taxpaying public. The Commissioner's Strategic Planning and Budgeting/Performance Management process will develop performance measures and address the strategies in the strategic plan. For example, as part of the Strategic Planning and Budgeting/Performance Management process, the number of Critical Measures increased to 73 in FY 2002 from 65 in FY 2001. These new measures expand the coverage of tax administration programs from the 65 measures identified during the prior year.

Areas such as Information Services and Earned Income Tax Credit have separately scheduled reporting requirements for either justification of requested funds or mandated quarterly reporting to the Congress. The BSM appropriation language requires the IRS to submit an expenditure plan each year that includes a report on performance to obtain release of funds. Overhead and support areas either have, or are in the process of, developing measures for their functions.

##### **CORRECTIVE ACTION(S)**

During the SP&B/PM process, the Commissioner and Senior Management Team will determine whether we should designate existing measures or newly created measures as "critical" measures for purposes of reporting to external stakeholders and/or alignment with the strategies identified in the strategic plan.

##### **IMPLEMENTATION DATES**

February 28, 2003

**The Internal Revenue Service Should Continue to Develop Its Measures Program to  
Ensure That Its GPRA Measures Cover All of the Major Components of Tax  
Administration**

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**CORRECTIVE ACTION(S) MONITORING PLAN**

The FY 2004 Congressional Budget Justification and Annual Program Performance Plan will reflect the Commissioner's and Senior Management Team's decisions on the modification or revision of the critical measures for external reporting purposes.

**RESPONSIBLE OFFICIAL(S)**

Chief Financial Officer

## **The Internal Revenue Service Should Continue to Develop Its Measures Program to Ensure That Its GPRA Measures Cover All of the Major Components of Tax Administration**

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### **Attachment B**

#### **Assessment of Cause and Actions to be Taken to Address the Recommendation**

##### **IDENTITY OF RECOMMENDATION**

The Commissioner should ensure that the IRS includes performance measures or benchmarks for each of the major areas of its budget. The IRS can use existing measures, develop new measures, or, in the case of overhead-related costs, associate the costs with the program receiving the benefit.

##### **ASSESSMENT OF CAUSE(S)**

Various requirements from the Department, the OMB, the IRS Oversight Board, and the Congress govern the form and contents of the annual budget submission. The IRS also provides performance information and additional data through the questions for the record and hearing process.

Various programs also have their own special reporting requirements that supplement the information provided in the Congressional Budget Submission. For example, we regularly report information systems project implementation and cost data to the Congress as required by Section 300 of OMB Circular A-11.

##### **CORRECTIVE ACTION(S)**

The Commissioner and Senior Management Team will review the budget submission materials and determine where we should provide additional performance information to supplement major areas of the budget consistent with the requirements and guidance of the Department, the OMB, the IRS Oversight Board, and the Congress.

##### **IMPLEMENTATION DATES**

February 28, 2003

##### **CORRECTIVE ACTION(S) MONITORING PLAN**

The FY 2004 Congressional Budget Justification will reflect the Commissioner's and Senior Management Team's decisions on the additional performance information associated with major areas of the budget.

##### **RESPONSIBLE OFFICIAL(S)**

Chief Financial Officer

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## Attachment C

### Assessment of Cause and Actions to be Taken to Address the Recommendation

#### IDENTITY OF RECOMMENDATION

The Chief Financial Officer should include in the IRS' measures verification and validation process assurance that the definition of each measure matches its use. The new procedures should not only address those definitions that have changed but all of the critical performance measures.

#### ASSESSMENT OF CAUSE(S)

We identified two instances where the critical performances measures definition of the measure did not match its use.

#### CORRECTIVE ACTION(S)

As your report notes, we resolved the issue regarding Tax Court Cases in our FY 2003 Congressional Justification. We also addressed the issue related to business returns and no longer include 1040ES returns in the definition of the measure.

More generally, we recently issued guidance requiring designated officials in the operating divisions to certify that performance data reported on a monthly basis meets the validation and verification procedures contained in the Data Dictionary. We modified input documents required for the data dictionary in FY 2001 to include information on the controls established by the data owner to ensure the data is valid. In addition, based on a recommendation from GAO, we are in the process of revising the Critical Measure Data dictionary to include the "critical path" that the data tracks from its point of origin.

#### IMPLEMENTATION DATES

September 30, 2002

#### CORRECTIVE ACTION(S) MONITORING PLAN

The monthly certification from the operating divisions is already in place. And, the Organizational Performance Division is working with the various operating divisions and support organizations to develop a more comprehensive data dictionary.

#### RESPONSIBLE OFFICIAL(S)

Chief Financial Officer



## The Internal Revenue Service Should Continue to Develop Its Measures Program to Ensure That Its GPRA Measures Cover All of the Major Components of Tax Administration

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### Attachment D

#### Detailed Comments and Proposed Revisions

The following represents our detailed comments and proposed revisions to the draft report.

Page 2, Footnote 3: "The IRS has two measures of its underreporter program, but these measures alone are not sufficient to address the success of this strategy."

*Comment:* Other Critical measures address non-compliance. Specifically, we have three Automated Collection measures, four Field Collection measures, two Correspondence Examination measures, and eight Field Examination measures in addition to the two underreporter measures identified in your report. The other three components of this strategy besides underreporter are Corporate Tax Shelters, Unpaid Trust Fund Taxes, and EITC Compliance Strategies. Tax Shelter examinations are included as part of the Coordinated Industry Case Closure and the Industry Return Closure measures. Unpaid Trust Fund Taxes are part of the new IRS strategic measure, Potentially Collectible Inventory, which we are rolling out this spring with monthly data updates for each division. Finally, IRS reports to Congress on the EITC program quarterly.

Page 2, Footnote 4: "The IRS has an employee satisfaction critical performance measure, but neither this measure alone nor any of the existing internal performance measures is sufficient to address the success of this strategy."

*Comment:* We use the Employee Satisfaction measure to gauge the effectiveness of actions taken to recruit, develop, and retain a quality workforce.

Although the Strategic Human Resources (SHR) Balanced Measures were not part of the Congressional Budget Justification or Critical Measures, a number of their Balanced Measures are reflected in SHR internal documents, i.e., Business Performance Review, and used in briefings to IRS Senior Management, the IRS Oversight Board, the Treasury Department, the OPM, and the GAO. We have used them in Oversight Board deliberations and Executive Management team decisions on the IRS strategy to recruit, develop, and retain a quality workforce.

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SHR Balanced Measures are based on the SHR Strategic Imperatives of transition, renewal, investment, and performance/worklife quality and are aligned with the Human Resources Life Cycle, which is plan, recruit, educate, develop, sustain, and transition. They define the Strategic Human Resources agenda, give long-term direction to IRS-wide policies, and serve as a yardstick to evaluate over time (3 – 5 years) our major outcomes from their initiatives.

Page 2, Footnote 5: "This relates to Information Services support activities and not Modernization activities which are subject to additional oversight."

*Comment:* While Information Services does not have Critical Performance measures at this time, they do have a suite of performance measures and workload indicators that they report and submit monthly for IRS Senior Management Team review. Information Services submits quarterly reports for IRS Oversight Board review. We also regularly report information systems project implementation and cost data to the Congress as required by Section 300 of OMB Circular A -11.

Page 3, paragraph 4: "The business units do not believe that they are in the position to request that the IRS add performance measures to the list of critical performance measures that the Commissioner selected".

*Comment:* We are not sure of the basis for that statement. Four divisions, Wage and Investment, Small Business / Self-Employed, Chief Counsel and Criminal Investigation have all made requests to add or change their critical measures. To date, the Commissioner has approved every divisional request to add or change Critical Measures.

Page 5, paragraph 4 continued to page 6: "... the IRS should also include measurements and benchmarks in its Annual Performance Plan and Congressional Justification so that this information is available to interested parties, such as the Oversight Board and taxpayers, and so that the Congress can use it as part of its annual budget decisions relating to the IRS."

*Comment:* The IRS has substantial reporting requirements to the Oversight Board, the Congress, and the OMB beyond the Congressional Justification and the Annual Performance Plan. The Oversight Board gets monthly data reports and internal operations documents, and holds their own performance meetings with the Business Operating Divisions. We regularly report information systems project implementation and cost data to the Congress as required by Section 300 of OMB Circular A-11. The Critical Measures data as well as other performance data is regularly shared with the IRS Oversight Board, the Congress, the OMB, Treasury and other stakeholders.

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Page 6, paragraph 2 "The IRS footnotes its BSM appropriation in its budget request acknowledging that the appropriation does not have any performance measures. The footnote goes on to state that the resources budgeted for this appropriation contribute to the meeting of the targets listed in the other appropriations of the IRS' budget request. While a portion of this appropriation supports activities of the other appropriations, a portion of it also funds the IRS' efforts to update its outdated business systems."

*Comment:* We recommend the language be changed to read: "The IRS footnotes its BSM appropriation in its budget request acknowledging that the appropriation does not have any performance measures. The footnote goes on to state that the resources budgeted for this appropriation contribute to the meeting of the targets listed in the other appropriations of the IRS' budget request. However, the IRS should also develop measures for the funds used to update its outdated business systems."

Page 8, first bullet "The definition for the Office of Chief Counsel's performance measure "Tax Court Cases" states that the measure represents Counsel's beginning inventory plus its receipts for the period."

*Comment:* As stated in the Report, we resolved the issue regarding how Chief Counsel counts cases in our FY2003 Congressional Justification.

Page 8, second bullet "The performance measure addressing business returns includes the Form 1040ES."

*Comment:* We have addressed the issue related to business returns and no longer include 1040ES returns in the definition of the measure.